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March 16, 1992

Pensions & Investments

The Newspaper of Corporate and Institutional Investing

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AT DEADLINE

L.A. County fund names CIO

Sheldon Lieberman, senior investment officer-equities at the $12.4 billion Los Angeles County Employees retirement fund, was promoted to chief investment officer, a new position.

Monks seeks Sears seat

Shareholder activist Robert A.G. Monks once again will run for a seat on Sears, Roebuck & Co.'s board of directors. Mr. Monks lost a bid to be elected to the company's board last year.

Contribution freeze rejected

Mayor Pete Sferrazza withdrew his proposal for Reno, Nev., to suspend $9 million in contributions to the state Public Employees' Retirement System after he failed to gain any support from Reno's City Council. He had proposed halting contributions to avert layoffs of city employees.

Manager tapped

SEI Insurance Asset Services hired Brundage, Story and Rose to run a $30 million fixed-income account, part of the $80 million in assets of MSJ Insurance, a captive insurer for the Sisters of Charity Health Care System, Cincinnati. SEI is the adviser to the Sisters of Charity.

Firm, French bank team up

Neuberger & Berman and Banque National de Paris have launched BNP/Neuberger & Berman, offering global equity and fixed-income investment management to institutional clients. Banque National also is investing $25 million in Neuberger & Berman through the purchase of a subordinated convertible debenture.

INSIDE

An eye toward the stars

The pension fund of U S WEST uses its fixed-income investments as a safe harbor that allows its pension fund executives to move other assets into riskier — and potentially more lucrative — arenas. Page 3.

SEC guns for realty managers

Action shifts liability onto fund trustees

By Steve Hemmerick

Pension fund investment in real estate could come to a temporary halt if the Securities and Exchange Commission succeeds in canceling registrations of many real estate investment managers.

Loss of SEC registration would thrust back on pension fund trustees personal liability for the decisions made by independent non-bank and non-insurance company real estate advisers, consultants and attorneys say.

The SEC threat flies in the face of calls by Congress and the Bush administration to inject more pension assets into the troubled real estate market.

Real estate money managers are forming a coalition — spearheaded by the National Association of Real Estate Investment Managers — to fight the threatened SEC action.

The managers are protesting the SEC's notice — issued Feb. 12 — that it intends to cancel registrations of 26 real estate managers in California. The SEC plans to evaluate more than 50 more in the Los Angeles area and begin similar real estate manager evaluations nationwide.

The SEC intends to cancel the registrations on the grounds the managers don't fit within the statutory definition of investment adviser in the Investment Advisers Act of 1940. SEC officials claim the targeted advisers don't give advice about securities. Real estate money managers, the SEC said, manage real property, and might have registered solely to qualify as investment managers under the Employee Retirement Income Security Act.

(Banks and insurance companies can act as co-fiduciaries and are exempt from a number of otherwise prohibited transactions.)

Indeed, most pension funds will hire only those independent money managers registered with the SEC. Corporate funds do so to transfer ERISA liability to their money managers; most non-ERISA funds have followed suit, because of state law or fund policy guidelines.

Getting out from under liabilities — possibly by mass switching of real estate investment managers or liquidation of real estate portfolios — would become the

See **SEC** *on page 33*

Richard Breeden's agency believes it is not qualified to investigate realty managers.

Randsworth investments wiped out

By Steve Hemmerick

Randsworth Acquisition Ltd. was put into receivership last week, making institutional investors' $435 million investment a complete loss.

JMB Institutional Realty Corp. purchased Randsworth Acquisition (formerly Randsworth PLC) in mid-1989.

Randsworth, the largest single overseas real estate investment for U.S. pension funds, was to mark the beginning of substantial American pension investment in Europe.

Now, however, the investment by the Ameritech Corp. pension fund, the Massachusetts Pensions Reserve Investment Management Board and the Algemeen Burgerlijk Pensioenfonds of the Netherlands and others is worthless.

JMB purchased Randsworth in mid-1989, at the top of the London real estate market.

The original purchase of Randsworth was valued around $800 million, including existing debt. The equity portion totaled $340 million, of which $50 million came from JMB and the rest from institutional investors, including 12 U.S. pension funds and a U.S. endowment.

Citibank's "perception of what the assets were worth and ours were different."

— Jerome J. Claeys
JMB Institutional Realty

JMB twice asked its investors for additional capital to ease the burden of the acquisition's heavy debt load.

Investors put in another $95 million, but uncertain when the market would improve and worried about their opportunity costs, they balked at putting up what a JMB executive described as "a substantial amount" of additional capital.

Randsworth has about 1 million square feet of prime office and retail space, mainly in London's West End.

Investors tried for more than a year to maintain their ownership in the highly leveraged real estate company, negotiating with the London office of New York-based Citibank, the lead lender in the deal.

But JMB officials said an impasse had been reached on how the revolving term loan credit facility could be refinanced. The balance of the loan is $350 million.

Jerome J. Claeys, chairman of JMB Institutional Realty, said Citibank exercised its right under U.K. law to appoint a receiver for Randsworth as a result of non-payment of interest on the Randsworth loan. That means the receiver took the Randsworth stock that had been owned by investors and JMB.

As overall property values in the depressed U.K. economy fell, the value of Randsworth assets dropped below the amount of debt owed on the investment, Mr. Claeys said.

"Since the value of the assets was less than the debt, we had to make some arrangement with Citibank," he said. But the negotiations were unsuccessful. Citibank's "perception of what the assets were worth and ours were different."

Investors reacted calmly to the news, partly because they had been kept informed of the negotiations and partly because they apparently already had written down the investment.

PRIM, for example, already had written its $25 million Randsworth investment down to zero last year. ■

Travelers in trouble — but so are others

By Fred Williams

Although Travelers Insurance Co. has borne the brunt of recent bad news about the insurance industry, Equitable Life Assurance Society of the United States lost more than twice the GIC business Travelers did in the year ended 1991, *Pensions & Investments* has learned.

Equitable lost $3.135 billion in guaranteed investment contract business during that time, while Travelers saw its GIC business decline by $1.361 billion. Aetna Life Insurance Co. also lost more than Travelers — $1.454 billion.

Together, the three lost almost $6 billion in GIC business, according to The Townsend & Schupp Co., a Hartford, Conn., insurance research and credit analysis firm.

All three had been among the industry's leaders in new GIC business. Now they have mounting financial woes linked to most of the same problems that prompted plan sponsors to flee from GICs: deteriorating credit quality caused largely by underperforming mortgage loans and problem real estate.

Travelers has been receiving the most scrutiny from pension executives, analysts and consultants.

Among the problems faced by the Hartford-based company:

- Travelers is offering GIC returns of 75 to 100 basis points higher than what higher-rated issuers are offering, but "is finding few takers," one consultant said.
- Industry sources say Travelers faces liquidity problems to support its sagging real estate portfolio because GIC investors have taken their business elsewhere. The company raised $928 million through the sale of various assets and subsidiaries since 1989, and Travelers officials acknowledge they are actively seeking addi-

See **Travelers** *on page 31*

NEWS DIGEST

BARRY B. BURR

Manoel Francisco Pires da Costa, president of the Sao Paulo futures exchange, represents a new era of investment in Latin America, examined in the special report beginning on page 15.

Robert A.G. Monks says a plan to create a shadow board of shareholders at Exxon Corp. will test the level of maturity of the corporate governance movement. Page 21.

Robert Franklin, who led the institutional fixed-income department at The Boatmen's Trust Co., has left and started his own money management firm. Page 22.

Despite the lifting of federal sanctions against South Africa, little has changed at state and local governments to end individual sanctions. Page 24.

FINANCING

The sale of 10 million shares of GM Hughes Electronics Corp. stock illustrates concerns about the long-term survivability of the special issue. Page 33.

INTERNATIONAL

Dean LeBaron, who has played an enthusiastic piper to pension fund investment in the former Soviet Union, is changing his tempo and maybe his tune. Page 2.

The start of Japan's fiscal year April 1 could be the beginning of some long-awaited good news for the poorly performing stock market. Page 3.

REAL ESTATE

Pension fund investment in real estate could come to a temporary halt if the SEC succeeds in canceling registrations of many real estate managers. Page 1.

Randsworth Acquisition was put in receivership last week, wiping out equity investors in the JMB deal. Page 1.

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Batterymarch pulls back

LeBaron slows pace of investing in ex-Soviet republics

By Hillary Durgin

MOSCOW — Dean LeBaron, who for the past 18 months has played the enthusiastic piper to prospective pension fund investors in the former Soviet Union, is changing his tempo — if not his tune.

Sounding a new note of caution, Mr. LeBaron, founder and a trustee of Batterymarch Financial Management, Boston, said the Soviet Companies Fund will make investments in the newly independent republics at a much slower pace than originally planned.

The plans to proceed more cautiously follow a decision, made by Batterymarch executives after the August coup attempt, to scale back the initial commitments to the $1 billion fund and instead do two tranches or closings.

"The yellow light is on," said Paul Rugo, executive director of Batterymarch's Moscow office. "It would be prudent to be more cautious. . . . Perhaps the money will go in in a more measured way," he said, referring to the fund's investments.

Batterymarch executives still say there's no time like the present for pension funds to get a foothold in the Commonwealth of Independent States. But in the past three months, unforeseen economic and political forces in the now antagonistic republics have prompted the firm to proceed with more caution.

"For the first time in approximately 18 months there are some initial — perhaps temporary — causes (for) investigation," said Mr. LeBaron, who traveled to Moscow and St. Petersburg in February. "I found, this time, a little bit of the first glimmer of a turning away from Western economic investing."

Kenneth E. MacWilliams, president of Prudential Equity Management Associates, Newark, N.J., one prospective institutional investor in the fund, said: "If he's concerned and wants to go slowly, we're comfortable with that."

Other targeted investors — including pension funds at American Telephone & Telegraph Corp., General Motors Corp., IBM Corp. and ARCO Investment Management Co., a unit of Atlantic Richfield Co. — declined to comment or didn't return phone calls.

In addition to the antagonism among the republics, defense contractors are still filling military orders for export to Third World nations, stalling plans to convert to civilian-based production, said Messrs. LeBaron and Rugo. Further stymieing potential investor interest are proposals that would tax exports from Ukraine and Russia, and also tax the personal income of expatriates living in those republics.

Mr. LeBaron's cautionary stance underscores the riskiness of ventures in the former Soviet Union, particularly for pension funds that must meet strict fiduciary obligations. Besides legal and structural hurdles involved in

See **Russia** *on page 35*

Bransford to become Stein Roe president

By Terry Williams

ATLANTA — Roger C. Bransford is resigning as national director-asset consulting services for Towers Perrin to become president of the investment management division of Stein Roe & Farnham Inc., Chicago.

Mr. Bransford said his new position also will include a seat on the company's board of directors, and he will report to company Chairman Timothy A. Schlindwein.

Stein Roe & Farnham has about $25 billion under management, $15 billion of which is for institutional clients, Mr. Bransford said.

An immediate successor to Mr. Bransford has not been named, according to Catherine Higgins, regional practice leader with Towers Perrin, New York.

"Our expectations are we are going to absorb Roger's duties within the existing (domestic asset consulting) group," she said. There are 23 professionals within the domestic asset consulting practice.

Mr. Bransford described the parting with Towers Perrin as "very amicable."

"I think the world of the company," he said. "It's an extraordinary group of people that have done exceptional work for the clients."

Mr. Bransford also said his departure is unlikely to have any adverse effect on Towers Perrin's relationship with its clients.

"My role was primarily a building role," said Mr. Bransford, who joined the firm in 1988 to build the asset consulting business. "We've always had at least two senior consultants on each client relationship."

TOM REED

Roger Bransford said his new position "was close to impossible to turn down."

One client — Carlos Resendez, executive director of the $400 million San Antonio Firemen's & Policemen's Pension Funds — supported Mr. Bransford's assertion.

"TPF&C has a unique function which I like," said Mr. Resendez. "They operate under a team concept, and no one individual is responsible (entirely) for your account.

"It's going to be business as usual," he said. "It won't impact our relationship."

Mr. Bransford said he was approached by Stein Roe & Farnham, and he described his new position as "a very compelling and challenging situation."

"It was close to impossible to turn down," he said.

Mr. Bransford said he will be responsible for "putting a series of pieces together to capitalize on the firm's franchise."

His duties will include evaluating and enhancing the investment products and supplementing the marketing effort.

"I'm not going in to tell them how to select securities," he said. He will nevertheless be in charge of the investment operation.

See **Bransford** *on page 31*

Coal funds' fate tied to Senate bill

By Hillary Durgin

WASHINGTON — Legislation that would bail out two bankrupt United Mine Workers of America retiree health benefit funds moved toward Senate approval last week, but the funds still could cave in if President Bush vetoes the whole tax package.

Sharing the uncertain fate of the mine worker legislation are other provisions in the Senate Democratic tax package that would have an impact on pension funds, including:

- A provision that would cap the deduction on executive compensation in excess of $1 million;
- Provisions to stimulate pension fund investment in real estate similar to those approved by the House but without rules that would encourage pension fund investments in real estate investment trusts; and
- A host of benefits-related provisions that would expand individual retirement accounts and simplify current pension law.

Assuming the president vetoes the final tax package, survival of any of the provisions depends on whether they can be attached to other legislation later this year.

Bitter opposition to the miners legislation would hurt its chances of re-emerging intact following a presidential veto, and trustees of the retiree health funds have threatened to terminate health benefits April 13.

With House and Senate conferees expected to resolve their differences on the pension-related proposals, they have a greater chance of resurfacing in other legislation. Congress is trying to send a final bill to the president by March 20.

The miner legislation was expected to survive efforts to modify it or strike it from the Democratic

See **Coal** *on page 35*

Fund helps out church

Church of Christ, Scientist, taps $80 million in assets

By Curtis Vosti

BOSTON — The Church of Christ, Scientist, strapped for cash and embroiled in controversy, has used more than $80 million of its pension assets for church needs in the past three years.

The church, owner of The Christian Science Monitor newspaper and other media, has been able to revert actuarial surpluses and, in the first two months of this year, take out $41 million in loans without apparent government regulation or oversight because of the church's tax-exempt status and the structure in which the pension assets are held.

"It's merely a bank account," said Donald Bowersock, managing treasurer of the Mother Church, as the national offices in Boston are called. "All the legal advice we've received had said that it was not a problem."

The pension account was established in the late 1970s as a reserve fund of the board of directors. The assets are not held in a separate trust, nor are there trustees with fiduciary responsibilities, Mr. Bowersock said. Also, the assets are not held in a qualified plan.

Churches generally are exempt from the federal Employee Retirement Income Security Act and Internal Revenue Service regulations, which would govern the loans and withdrawals from a pension fund. Church funds can, however, be subject to state trust regulation, including restrictions on making loans or withdrawing surpluses. However, churches often set up pension funds under Sections 401(a) or 403(b) of the Internal Revenue Code to prevent their employees from being taxed on the retirement benefits.

But apparently not the Mother Church.

"It is not subject to state or federal laws," Mr. Bowersock said about the $115 million in pension reserves. "The commitment is to pay a benefit. The control is purely and simply the ethics and morals of the church."

In Massachusetts, the state attorney general ruled in the early 1980s that ERISA superceded state law, and it is not clear if there is any regulation of church funds, according to Barbara Phillips, an attorney in the legal department of the state Public Employees Retirement Association.

A spokesman in the charities division of the attorney general's office said churches generally are exempt from state regulation.

This freedom allowed Mother Church officials to withdraw $15 million in 1989 and $25 million in 1991, then borrow $11.5 million in January of this year and another $30 million in two installments in February. The loans have no collateral, but the church has promised to pay them back over an unspecified period with interest equal to the prime rate plus one percentage point.

The withdrawals and loans have helped the church through a cash crunch as its media investments — such as the Christian Science Monitor, magazines, radio stations and, most recently, cable television — soured.

The crunch also has been exacerbated by a much publicized court battle over the rights to a $98 million bequest from Bliss Knapp, a biographer of the church's founder, Mary Baker Eddy. The church is being challenged by two alternate beneficiaries who stand to gain the bequest if the church hasn't complied with the will.

Controversy over the financial pinch has led to the resignation of Harvey Wood, chairman of the Christian Science Board of Directors, last week and a restructuring of power back to the board.

Mr. Bowersock said Mother Church employees and pensioners have no cause for concern about the withdrawals — which he calls reversions — and the loans because the pension fund is actuarially sound and has enough assets (after the withdrawals and not subtracting the loans) to cover the projected benefit obligations. Even if the loans were never repaid, he said, the fund still would have enough to cover the liabilities on a termination basis.

The Mother Church also provides matching contributions to a tax-deferred annuity option for its employees, but Mr. Bowersock was not prepared to give details of that defined contribution plan. •

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CORRECTIONS & CLARIFICATIONS

• In the Jan. 20 issue ranking of the Top 1,000 Pension Funds, the **Joint Board of Trustees, Alaska Electrical Pension Board** was ranked twice. The fund had $472 million in employee benefit assets Sept. 30.

• The photograph of **Mark Attanasio** and **Robert Beyer** on page 8 in the March 2 issue was reversed. Mr. Attanasio is on the right and Mr. Beyer, the left.

ECONOMY

Advisers see minimal growth ahead for stock market

■ The Dow Jones Industrial Average will finish the year close to its current level, money managers expect.

A survey of 35 money managers with total assets of more than $140 billion, conducted by Effron/PSN Inc., Port Chester, N.Y., and Sponsor-Software Systems Inc., New York, showed the median expected level for the Dow at year end was 3350, although the average expected level was 3270. The Dow was at 3267 Feb. 28, the day the survey was released.

Forecasts for other economic indicators and scenarios are shown in the accompanying table.

The managers say there is a 48% chance the 1992-'96 period will be a growth period, with only a 16% chance of even moderate inflation and a 2% chance of high inflation.

There is a 15% chance of stagnation and a 13% chance of another moderate recession in the period, the managers said.

The forecasts were used by Sponsor-Software Systems' scenario-based forecasting model to generate optimal portfolios designed to produce a minimum return of 10% for 1992 and the five years through 1996.

The one-year portfolio had a 31% exposure to large U.S. stocks, 20% each in small U.S. stocks, foreign stocks and U.S. bonds, and 9% in foreign bonds.

For the five-year period, the recommended portfolio allocation was 60% large U.S. stocks and 20% each in small U.S. stocks and foreign stocks.

— Michael J. Clowes

Gazing into the economic crystal ball

35 investment managers were polled for their views of where various economic indicators would be by the end of 1992.

Indicators	Mean	Median
Prime rate	6.81	6.75
S&P 500	423	435
DJIA	3270	3350
90-day T-bills	4.38	4.40
30-year Treasury rate	7.70	7.75
AAA corporate bond rate	8.66	8.55
CPI	3.16	3.30
Unemployment	6.9	6.8

Sources: Effron/PSN Inc., Port Chester, N.Y., and Sponsor-Software Systems Inc., New York

JOHN SMITHER

INTERNATIONAL

Irish funds see reversal of fortunes

■ Rebounding from the previous year, the average pooled fund in Ireland posted a 14% return during 1991, compared with a 12% drop in 1990, according to the consulting firm of William M. Mercer Fraser Ltd., Dublin.

Mercer Fraser tracks the performances of pooled funds of pension assets managed by 12 Irish money management firms. It found last year's best performances occurred in the first quarter, following the conclusion of the Persian Gulf war when "all funds" benefited "from the recovery of global equity markets during February and March."

Last year's best performer was the Bank of Ireland with a 19.6% gain, followed by Ulster Investment Managers, up 17.2% and Prudential Life Assurance Co., with a 15.7% return, said Mercer Fraser.

With its 10% gain, Allied Irish Banks was last year's worst performer.

For the five years ended Dec. 31, New Ireland Assurance Co. ranked tops in performance, returning 13.1% annually for the period, followed by the Bank of Ireland with a 12.2% annual gain.

GRE Life ranked last in performance with a 9.2% return per year.

For the five-year period, returns on pooled funds overall ranged from 13.1% to 9.2% per year. All funds, however, registered gains that Mercer Fraser said were "substantially ahead of corresponding price inflation of just 3.3% per annum."

— Margaret Price

INVESTING

Small-cap surge hits short sellers

■ The NASDAQ Composite, measuring the performance of small-capitalization stocks, gained nearly 6% in January. The Dimensional Fund Advisors Small Cap Index, another broad measure of small-cap returns, soared 11.5%.

The strong performance surge of small-cap stocks resulted in a loss for managers specializing in short selling, according to Centurion Trust Co., La Jolla, Calif. The firm's Strategic Defensive Investing Index shows a loss for the average short seller of more than 7%, despite apparent relief offered by a 2% drop in the S&P 500 in January. The SDI Index is a composite of the results of established managers specializing in short selling.

The negative correlation between short sellers' results and broader indexes including more small-cap stocks in January is no coincidence, said Steven M. Kibbey, a Centurion vice president. "Our observations have shown small-cap stocks dramatically underperforming in the interval between 1983 and 1989. Short sellers traditionally have large exposure in small-cap stocks and enjoy considerable success when small cap underperforms."

— Christine Philip

REAL ESTATE

Property index at a record low

■ The Russell-NCREIF Property Index's preliminary results show a −5.4% total return for 1991, a record low for the index. The previous one-year low was −3.6% for the year ended Sept. 30, 1991.

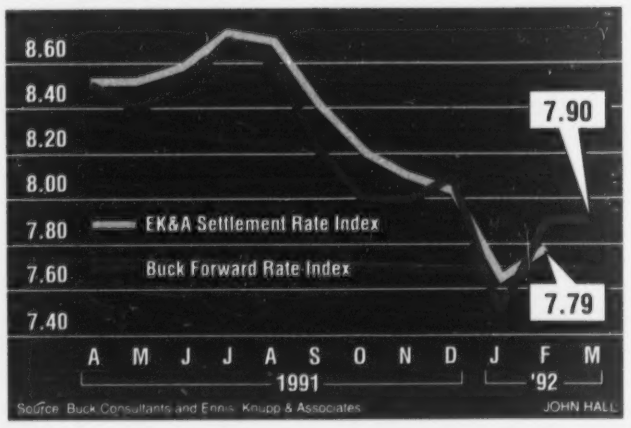
Total returns for the year, by property type, were −11% for office properties, −1.5% for retail, −6.5% for research and development properties, −1.5% for apartments and −1.2% for warehouses.

Income from the properties was positive for the year for all property types. But depreciation was so sharp it more than negated the income component.

The worst depreciation in 1991 was for office properties, −16.8%.

— Steve Hemmerick

Indexes for valuing pension liabilities under FAS 87



Source: Buck Consultants and Ennis, Knupp & Associates JOHN HALL

MONEY MANAGERS

Salomon named unit's chairman

■ Robert S. Salomon Jr., managing director of Salomon Brothers Inc., New York, was named chairman and chief executive officer of Salomon Brothers Asset Management Inc., succeeding Michael F. Holland, who left the firm to become vice chairman at Oppenheimer & Co.

R. Salomon Jr.

If the name seems appropriate for the position, it is not a coincidence. Mr. Salomon is the grandson of Percy Salomon, one of three brothers who started the brokerage firm.

Mr. Salomon said one of the changes in his job will be that he will be doing a lot more traveling. As a start, he and Mr. Holland, in his final function for the firm, went to Japan together last week. The tour is "a sort of passing of the mantle," said Mr. Salomon.

Mr. Salomon sees a lot of challenges ahead, but said after only a few days on the job it was too early to anticipate any changes. "I'm more interested in learning than drawing conclusions."

"Our marketing plans have been in limbo," he said following the investigation of the parent company for bidding violations at U.S. Treasury note auctions. He noted, however, the asset management group was not directly effected by the Treasury scandal, and he expects the residual effects on the firm will be gone by the second quarter.

For the past year, Mr. Salomon has been chief investment officer in charge of all equity mutual funds. He will continue to manage the Salomon Capital Fund. Prior to joining the asset management group, he was director of stock research and U.S. equity strategist for 16 years at Salomon Brothers.

— Sabine Schramm

CONSULTANTS

Noble Lowndes expands to Hungary

■ Employee benefit consulting giant Noble Lowndes has acquired a majority shareholding in a Hungarian company, PX Human Risk Management Ltd., Budapest.

PX, which was established as a private company in 1989 to advise the government on the development of insurance programs, including pensions, will be renamed Noble Lowndes/PX Ltd.

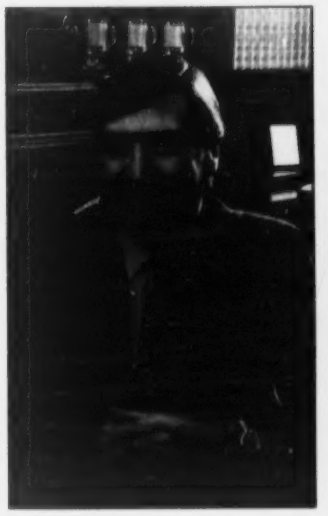
Peter Brew, a board member and managing director of Noble Lowndes' North American operations, said the Hungarian outpost will try to aid and benefit from the former communist state's move to a market economy.

"In the new environment of trying to change to a market economy, they are looking at the long-term funding of retiree and health care funding," Mr. Brew said. "Under the old system, the hospitals became a dumping ground for all of the social problems. There's a lot of work to be done."

Heading the Hungarian operations will be Adam Gere, a Hungarian native who left the country for political reasons in 1960 and spent the intervening 30-odd years in Sweden, the United Kingdom and the United States.

While Mr. Brew recognizes the long challenge ahead, he is thrilled to be a part of the task at hand. "From our point of view, it's not a big money spinner. But strategically, it's an exciting move."

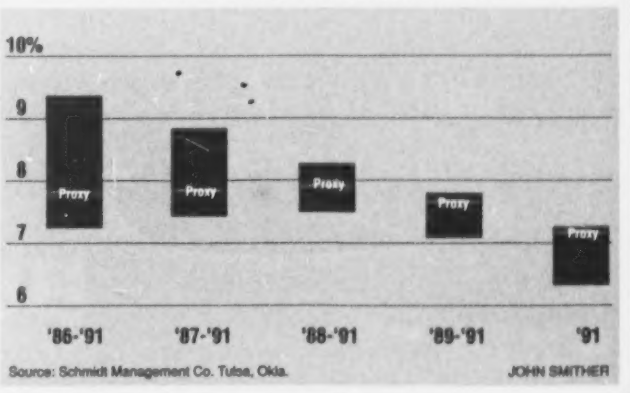
— Curtis Vosti



P. Brew

GIC Common Fund Proxy

The GIC Common Fund Proxy uses a mix of 50% 90-day Treasury bills and 50% average contract rates on one- to five-year GICs (equally weighted) to estimate the historical return on the average GIC common fund. Years ended Dec. 31.



Source: Schmidt Management Co. Tulsa, Okla. JOHN SMITHER

Travelers

Continued from page 1
tional capital.

- Legal wrangling continues over how best to liquidate Separate Account R, Travelers' $225 million open-end commingled real estate fund. Dozens of pension funds are trying to withdraw from the fund and recoup investments.
- The Securities and Exchange Commission has launched a quiet inquiry into Travelers' accounting, reporting and disclosure in its $15 billion real estate portfolio dating to 1988.
- Travelers has been placed on Moody's Investors Service watch list for a possible downgrade of its lackluster A2 rating, primarily because of its exposure to commercial real estate and asset quality problems.

If the rating drops to below investment grade, it would lead to a further drain on assets and probably an acceleration of pension funds dumping Travelers GICs and possibly the heretofore-unaffected Travelers Investment Management Co., another subsidiary of Travelers' parent, The Travelers Corp.

Travelers has 44.7% of invested assets in commercial mortgages, according to Townsend & Schupp, compared with an industry average of 23% in 1991. About one-third of its mortgage portfolio is underperforming and more problems are expected. Aetna had an industry high 49.7% of invested assets in commercial mortgages.

Aside from its huge loss of GIC business, Travelers' other pension investing businesses seem to be holding their own. Non-GIC pension fund clients are sticking with the company, but are cautious as its problems mount.

Travelers' indexed assets under management almost doubled in the year ended Dec. 31 to $1.76 billion from $888 million. TIMCO's separate account management increased to $3.3 billion as of Dec. 31, from $2.9 billion a year earlier.

Mike Stavar, assistant treasurer at BASF Corp., Parsippany, N.J., said he renegotiated with Travelers the terms of an $18 million immediate participation guarantee contract because of concerns about reinvestment risk. Travelers now pays interest directly to BASF, instead of accruing it, and is paying back a portion of the principal twice yearly until the contract is liquidated, he said. IPGs are predecessors of GICs that have no actual maturity date.

"I wanted control of the (IPG) assets," Mr. Stavar said. He won't terminate the contract because of the stiff penalties involved, but is "watching things carefully."

Loris R. Colclough, director-finance for the city of Winston-Salem, N.C., said he is concerned about the plight of Travelers following the investment of $4.5 million of the Winston-Salem Police Officers Separation Allowance Fund in an equity index fund with TIMCO.

He said his fund could consider terminating TIMCO "if we felt uncertain or insecure about the safety of our funds."

Most pension investors' concerns center on Travelers' GICs.

Owens-Corning Fiberglas Corp., Toledo, Ohio, no longer includes Travelers in its GIC bidding process because the company does not meet its credit quality standards, said Terry Priestap, director-pension management.

He said existing contracts will be allowed to mature, but probably will not be rolled over with Travelers.

Most analysts believe Travelers is working out its problem real estate portfolio, and none expects Travelers to be taken over by regulatory agencies like Executive Life Insurance Co. and Mutual Benefit Life Insurance Co. were.

"We saw the problem and we are dealing with it," said John Prom, Travelers vice president. "I think the rating agencies and anyone who has taken a close look at our company feels we have a handle on the situation and are solving the problem. We are managing our way through this."

He said the company has established sufficient reserves to cover problem loans and is making expeditious sales where possible, but not at "fire sale" prices. He said the insurer is prepared to wrestle with its real estate problems for as long as it takes to resolve them on an equitable basis over the long term.

In the GIC area, he said, "we have some new products coming on line . . . such as a short-term bond fund. Sure, the ratings issue has hurt us, but we expect to be back" in the GIC business.

A run-on-the-bank scenario is minimized, analysts claim, because Travelers' GIC contracts traditionally have stringent termination clauses calling for long waiting periods and loss of income upon termination.

But the loss of more than $1 billion in GIC business in a year indicates plan sponsors and GIC managers are not rolling over existing Travelers contracts and are moving to higher rated companies for their new business.

Jason Psome, principal with Brentwood Asset Advisors, Santa Monica, Calif., a GIC consulting firm, said he has not placed a contract with Travelers in at least four years.

He doesn't recommend dumping Travelers, but suggests viewing the GICs as a corporate bond: "Consider the risk of it being a financial institution and decide if the return and maturity of a Travelers GIC offers a fair risk/return scenario for the plan.

"Would you buy the same credit quality for the same return and the same maturity as a current Travelers GIC? If so, you can be comfortable with existing contracts. If not, you should explore ways to mitigate the risk."

Weston Hicks, insurance analyst at Sanford C. Bernstein & Co., New York, said the $910 million Travelers has reserved for problem real estate is adequate for now, but brings the company down from being "significantly capitalized to adequately capitalized."

Others, however, point out Travelers might have to come up with additional reserves because its problem mortgages in 1992 are expected to greatly exceed the reserves established thus far.

Mr. Hicks said he does not expect Travelers to experience a solvency crisis "unless there is a total meltdown in the economy." He said Travelers "appears to have adequate liquidity."

Other industry sources, however, believe Travelers might be facing a liquidity squeeze, largely because of efforts to support its problem real estate.

An analyst with a West Coast investment banking firm noted Travelers' recent private placement of $300 million in 10-year senior notes was sold to yield 9.5%, more than 200 basis points over the 10-year Treasury note. "Travelers was hoping to sell these notes priced at only 175 basis points over, but had to extend that in order to get them sold," he said. "That means that they were very anxious to place them at practically any cost in order to get the funding."

Mr. Prom said the note sale was necessary to add to the company's capital base "to allow us to expand our core business," not to support the real estate portfolio.

Another financial analyst said because Travelers is not receiving new cash flow from GIC placements, the company must pay for funding through more costly private placements and through public offerings.

"If you paid $50 million for some real estate five years ago expecting to pay it off . . . and now GICs are not being reinvested and your mortgage loan is not paying off through foreclosure or default . . . you have a liquidity crunch. In a normal market (Travelers) would just go out and issue more GICs to receive funding, but now no one is buying them," he said. ■

GICs in force

Total GICs ($ millions)

Company	1991	1990	Net change
Prudential	22,966	21,900	1,066
Metropolitan	17,725	18,265	-540
Aetna	11,132	12,585	-1,454
John Hancock	10,154	9,648	507
New York Life	9,265	8,440	824
Travelers Insurance	7,081	8,444	-1,363
Provident National	6,637	6,421	215
Equitable	6,565	9,700	-3,135
Mass Mutual	5,011	4,805	207
Hartford	4,664	3,442	1,222

Source: The Townsend & Schupp Co., Hartford, Conn. JOHN HALL

Bransford

Continued from page 2
"Most people would look for an investment professional to run investment management," said Mr. Bransford. "They are looking for someone with the capability of shaping the business into what it is capable of being."

A 20-year veteran of the investment consulting business, Mr. Bransford worked with the old A.G. Becker & Co. from 1971 through 1978. He then served as a senior vice president with Meidinger Inc., leaving in 1984 but returning a year later and working there through 1986.

He left Meidinger to join D.L. Eager Associates Inc. (now Eager & Associates Inc.), Louisville, Ky., which he left to take the position at Towers Perrin. ■

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